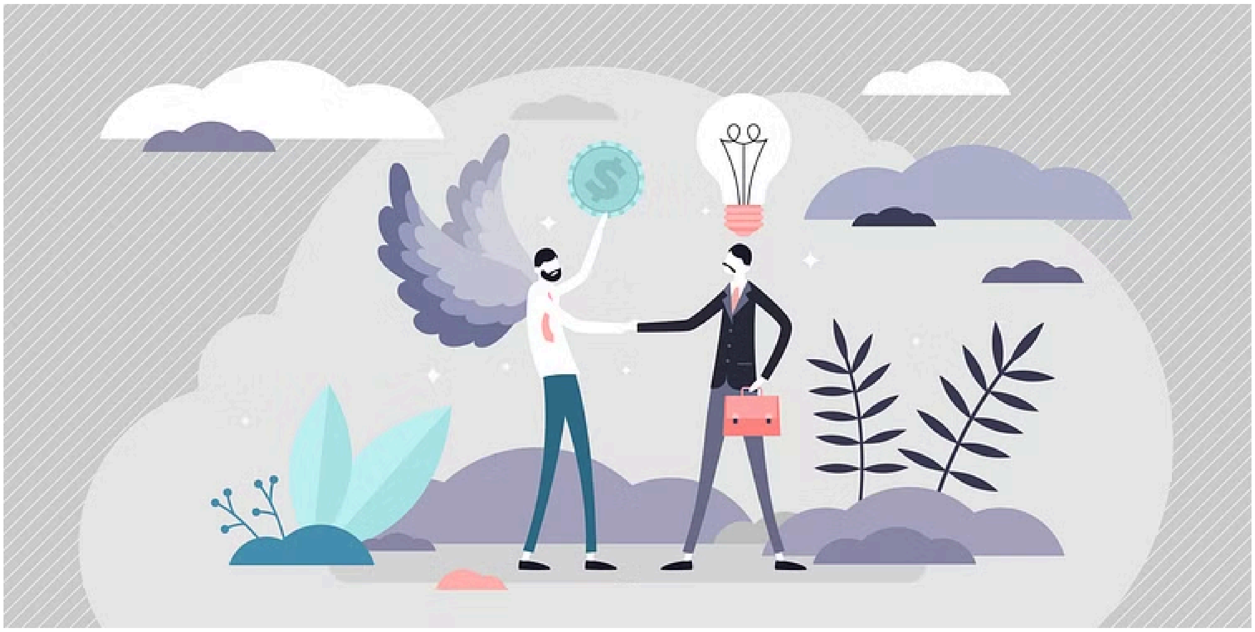
The Guide to Successful Startup Investing



Become an angel in the next startup Cinderella story

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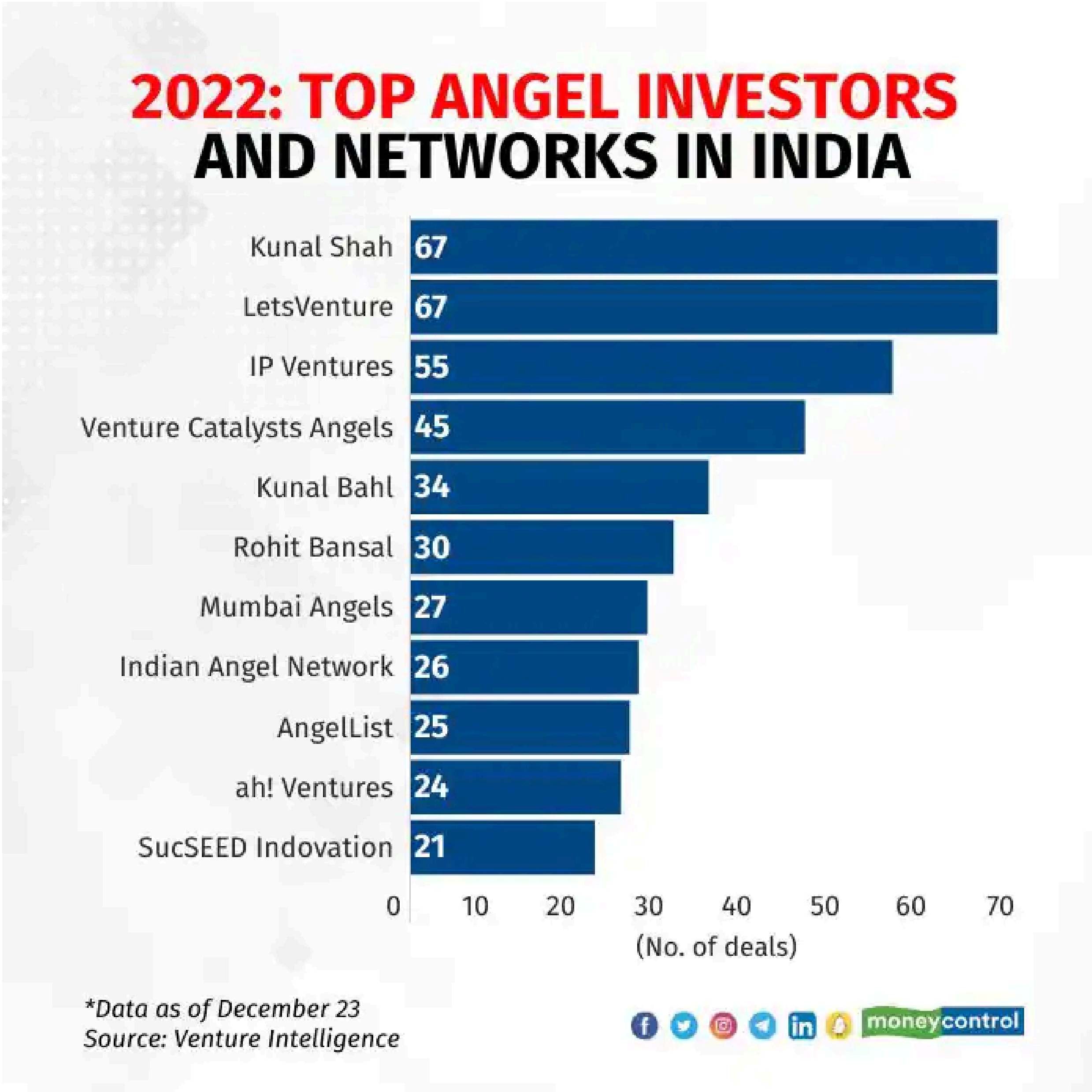
Shark Tank India Season 2 has been the talk of the town for a while now. During the show, many startups pitched their business ideas and backed a deal. The Sharks are investing their money in different interesting business ideas. Some of them were real problem-solving ones, while others were big in terms of money.

Now you can also become a shark, by investing in startups.



Source: Money Control

Ideas dominate contemporary society. They feed our curiosity, govern our decisions, and fuel our increasingly knowledge-based economy. The startup world houses an industry of ideas, providing mankind with cutting-edge solutions to everyday problems. However, not all ideas evolve past their formative stages. Some succeed, and some ultimately fail. To investors, startups offer huge opportunities for high returns,the gains exist only in tandem with substantial risk.

Each successful startup is its own ‘Cinderella story’: a tiny, homegrown startup undergoes a metamorphosis into a publicly-traded booming company, overcoming great odds - and the terrible stepmothers - of the business world. Success stories like Sequoia Capital’s 12,000% return from their investment in Whatsapp (acquired by Facebook) should excite investors about the opportunity of getting in on the ground floor of the next big thing. However, it should also serve as a reminder that startup investing is an extremely risky asset class. The transformation to make it to happily ever after takes a lot of capital, risk, and effort.

This is where investors, who are aptly called angels, enter. In the age of the knowledge-based economy, angel investors have increased in both involvement and number. Experts suggest that thousands of new ventures annually receive billions of dollars in Start-up investment. With the rise of new platforms and availability of information online, individuals can now add this new asset class to their investment portfolios.

This ebook is a guide for people looking to enter the startup-investing arena. It's tempting to allow the imagination to wander towards the superstar success stories but the risk remains a very important factor in startup investing. There exist various investment strategies to help investors "play the odds."

Top 5 Reasons, how Startup investment creates wealth.

Higher risk appetite

Early in life, investors' risk-taking ability or tolerance is higher than later in life. Young investors can start investing in stocks and equities. Investors need to understand the concept of investing & Compounding, where large caps have given approximately 12 – 14 per cent return in the long term.

Lower living expenses

At a younger age, when we start working, we have more liquidity for investment in our pockets as our expenses and responsibilities are less. We do not need to think of spouses or children and parents might also be working. The moment we have our income is the time to start the habit of investing, even if it's just a small amount. It also helps to suppress the habit of overspending, which is common in the early years.

With lower expenses, we can devote more money towards investment in riskier investment instruments like equities and equity mutual funds.

Compounding can make a difference

Investors can gain from compound interest if they invest early. The term "compound interest" refers to reinvesting the income from your investment. For example, if two people invest in the same mutual fund or any other investment instrument at the same interest rate and for the same maturity period, but one starts 5 years sooner than the other, even if the year of starting difference is only 5 years, the early investor would receive a 45-50 percent higher return. Therefore, we have an option of SIP returns where you start investing with a small amount of 1000 which keeps on compounding for 20 years.

Time plays a significant role

If you start investing early, there are huge benefits you gain through compounding over the years which in turn gets you favourable returns in long-term tenure. Furthermore, investing through ELSS funds helps save taxes. Therefore, investing early can offer a person a sense of financial independence and security. The earlier we invest, the bigger the investment nest is and the better are the chances of financial security in our life. In terms of investment, because time is the most valuable and limited resource we have, we may best utilise it and maximise our wealth by investing early.

Supporting startups that can transform industries

Drawing on the theme of supporting game-changing businesses, venture capital attracts angel investors not only for the financial incentives, but also for the chance to help realise the potential of many promising companies. Supporting these firms, often from the idea stage, means that investors can potentially share their knowledge and expertise, striving to further their chances of success.

Especially when the investor role involves the active sharing of expertise and advice, the fact that young companies can grow and thrive with the support of business angels is certainly an attractive point to be considered.

Best Startup Investment Practices

Industry Choice

First and foremost, an investor can actively choose the investment, the startup, its targeted market, and its industry.

Post-Investment Involvement

After making an investment, there are additional contributions that an investor may make in order to increase the likelihood of a higher return.

Due Diligence

It’s a good idea to know what you invest in, that is to say – perform due diligence. Due diligence is the process of investigating a person or company prior to signing a contract.

Diversification

Whatever an investor’s expertise, one should always diversify, in any investment asset class. It is unwise – detrimental, even – to bet on just one or two startup companies.

5 things to look for in Startup before investing?

1. Passion and Commitment

Before investing in any project, any investor first looks at the motivation behind the startup and tries to know the story of the enterprise and how it evolved. They want to see passion and commitment from the owner. Investors know how risky it is to invest in new business, and in case of a wrong decision, they might end up losing all their money. So, they would want to invest in something that is worth their time, effort and money.

When an investment is made, the investor is not just putting their money in the business; they are also putting their money on the business owner. It is not just monetary resources that the investor gives to the startup, but they also share their networks and their knowledge. They want to invest in someone who really believes in the idea that he/she is trying to sell and is committed to carrying it forward.

Investors also generally value the proposition more when the owner is ready to self-fund as well. This shows the passion and determination of the owner. Also, since the investor is investing not only their money but their time as well, they expect the owner to put in the same amount of time and effort, and even more.

2. Unique and Viable Business Plan

When approaching different sources for raising funds, the owner must keep in mind the viability of his/her business plan. When pitching to the investor, their plan should sound like a business plan and not just an idea. It should be something that is practical and can be implemented. A proper framework of the entire process should also be sketched out.

Other than that, the business proposition should be something that is new and innovative. It should be something that provides a solution to a problem. Companies like Uber and Flipkart became successful because they identified a problem, and they provided an easy and convenient solution to it. So, this is something that any potential investors definitely look at.

3. Market Opportunity

The investor would want to know everything before investing in the startup. So, they would also want to know the target audience of the product or service. They would also want to see the size of the entire market and the total number of customers that can be reached.

If the intended market size is not large enough, then the investor would not want to invest as they might not get enough returns from the investment. It has to be kept in mind that the business should run for the long term. The business may not sell in the entire country or the entire state, but the investor needs to know that there is potential for it to grow.

4. Investor Relevance and the X-Factor

When an investor invests, they would want to give funds to a company that they connect with or that they understand. They would want to provide funds to a startup which is related to their background or previous investments.

For example, someone who usually invests in tech startups would probably not want to invest in a product that is looking at retail distribution. So, the startup owner should do sufficient research before approaching an investor.

Selecting the right investor would help the owner is not just getting the necessary funds, but it would also help them in gaining knowledge and experience from the investor.

There's something also known as the 'x-factor' in funding. This is when there is some click between the investor and the startup owner, and due to this reason, the investor gets interested in the project and decides to invest in it.

5. Gaining Traction

The investor should see that the owner has already started working on the business model and that there is some sort of engagement with the target audience and the customer base of the business.

The investor should know what kind of sales the business has already had (if any) and what numbers are they hoping for in the future. The investor needs to know the future prospects of the business and whether it is actually something that can be sold for the long term.

Startup owners should back their business ideas by giving appropriate data, and relevant numbers as investors would want to know how much money they would get back and how fast they can expect it.

10 Hot Startup industry for the future

Artificial Intelligence (AI)

Artificial intelligence (AI) is the next booming industry for entrepreneurs. AI is considered to be the most promising industry for substantial growth by 60 percent of entrepreneurs.

Educational Technology (Edtech)

The Internet of Things (IoT), artificial intelligence (AI), augmented reality (AR), and virtual reality (VR) are all examples of edtech (VR).

Financial Technology (Fintech)

The next fast-growing startup industry on our list is fintech. Fintech is likely to develop in the coming years, making it an attractive market for tech-savvy entrepreneurs.

Shared Mobility

Shared mobility is the last but not least on our list of the finest startup sectors. Ride-sharing, bike-sharing, ride-hailing, and car-sharing are only a few of the subsectors of the shared mobility economy.

Healthcare Tech

The global healthcare IT market size was valued at $74.2 billion in 2020 and is expected to grow at a compound annual growth rate (CAGR) of 10.7% over the forecast period (2028), according to Grand View Research.

Delivery Services

There has been a massive increase in demand for food delivery services in the industry since 2020. In particular, the meal kit delivery service industry has seen tremendous growth owing to the increasing number of people staying at home.

E-Commerce

Presently, e-commerce industries are fast-growing industries. In the year 2021, the projected revenue from retail online e-commerce was $4.9 trillion worldwide.

Real Estate

The Real state industries have changed a lot during the pandemic. During covid real estate business has been shifted digitally.

Hospitality

Despite the Covid-19 pandemic, this is a sector with great opportunities for startups. There are hundreds of new and successful companies in this industry, and there are still many people who are willing to give catering and accommodation services a new dimension.

Retail

The vast range of companies thrive in this space. COVID-19 has put e-commerce at the forefront of retail.

What are the best startup investing platforms?

Here are the top 5 startup investment platform

Captabl.in

Captabl.in is an early and growth-stage fundraising platform that was founded in 2021 by Abhishek Garodia. For anyone looking for an angel investor platform or a seed investment platform, Captabl is a transparent medium for both investors and startups.

Captabl is the only leading platform with 0% commission on investment. Means better growth and high value for investors money. The Captabl helps to connect the startup with a potential investor and helps the startup raise capital.

Inflection Point Ventures

Founded in 2018, Inflection Point Ventures (IPV) is an early-stage angel investing platform.

The platform has grown from 100 investors to over 6,000 members today comprising CXOs, HNIs and top professionals. The minimum investment is of around INR 5 lacs and investment options are available in equity and debt form.

LetsVenture

LetsVenture is one of the leading startup investing platforms. The first beta of LetsVenture was launched in the year 2013. The minimum investment is of around INR 5 Lacs and investment is based on debt, equity and other available instruments. Platform and lead investors charge their fee with 10-20% on investment amount.

AngelList India

AngelList is another great platform that connects startups with investors. It was founded in the year 2010, by Naval Ravikant and Babak Nivi. The minimum investment is of around INR 5 lacs with payable commission up to 10%.

SeedInvest

It is a crowdfunding platform that gives access to investors to invest in startups. SeedInvest is a reliable platform as it has strict criterion for company selection. The minimum investment is of around INR 5 lacs with a payable commission up to 10%.

Conclusion

All in all, investors are a boon for any startup owner or any business, for that matter. It is important to keep them satisfied and ensure that their trust in the invested business stays intact. A business owner should prioritize its investor’s trust and make sure that their expectations are taken care of.

Investing in startups is inspiring, energizing, and, when done right, rewarding. Newly equipped with this information about startup investing, pursue your own chance to share in Cinderella's success.

Visit www.captabl.in to join our investment community and start to see all of our deal flow.

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